Chapter 12 and parts of 13

1. Graphing- Quantity of the resource your buying is on the “x” axis, Price/Wage of the resource is on the “y” axis. As always—Price/wage is the independent variable🡪quantity the dependent.
2. Does the question ask you to fill out a table or does it explicitly tell you what kind of market the firm SELLS in.
   1. This will effect your MRP curve (which is really your demand curve for resources)- Your MRP curve is the change in Total Revenue Curve for each additional unit of resource.
      1. If it’s perfectly competitive- than the price of the good doesn’t change regardless of the amount provided. In this case the derived MRC is a horizontal line.
         1. The MRP curve will be a linear uniform slope curve (downward- negative slope line)
      2. If its imperfect the price changes
         1. The MRP curve will start out higher but then fall at a much faster pace, the slope may or may not be uniform.
3. You always buy/hire resources so long as the MRP> or = to MRC, so you keep on buying until MRP=MRC
4. The MRC curve, the MRC Curve becomes the Supply curve.
   1. If you do not have “buying” power (ie, there are lots of other buyers in town, resource is not immobile), you are stuck with whatever is the going price for that resource.
   2. The going price of the resource is based on the interaction of all the buyers and sellers of that resource in the market. The demand curve is downward sloping and the supply curve is upward sloping. The equilibrium point, where they intersect, determines “your” cost as a firm of that resource---you are a wage taker not wage maker!
   3. Wage/price is therefore predetermined🡪 market price, your decision is how much of that resource to hire/buy🡪 where MRP=MRC.
      1. If you are a seller of a good in Pure competition, you will hire more labor than if you are a seller of a good in other markets (monopolistic, oligopolistic, monopoly) where MRP=MRC at a point closer to the origin on the “x” axis.
5. MRC Curve—MONOPSONY
   1. Labor markets🡪 Only ONE FIRM buying/hiring labor in town🡪labor is IMMOBILE
   2. MRC 🡪**DOES NOT EQUAL THE SUPPLY CURVE**🡪The MRC curve will be above the supply curve
      1. The Supply curve is derived by looking at the Wage rate (y) axis and seeing how many people are working at each wage level, $3, one employee, $4, two employees)
      2. Both the Supply Curve and the MRC curve are upward sloping (positive)
   3. How many people you hire depends on the wage rate which fluctuates, as you hire more employees the wage rate increases. Whatever number of employees you hire get paid the same amount. If you hired one person at $3.00, and hiring a 2 people is going to cost you $4.00, your costs increase by not simply $7.00 (3 +4) but by $8.00 (2 x $4.00), since the 1st and 2nd person will both be paid $8.00.
      1. The MRC of the 1st worker is $3.00, the MRC of the 2nd worker is $5.00, the supply curve and MRC therefore diverge with the 2nd worker.
      2. The MRC curve will have a steeper slope than the Supply Curve
   4. The MRP=MRC intersection tell you how many employees you hire, to determine the wage you have to look at the supply curve and determine at that number of employees what is the wage.
      1. In a monopsony you will hire less labor and pay them less than you would if the point of hiring was where MRP=Supply Curve
   5. A monopsony can exist in either a perfect or imperfect selling market.
      1. In both cases wages and hiring will be down, but this is even more so if it is an imperfect sellers market too, since the MRC=MRP intersection will lie closer to the origin-

**LEAST COSTLY METHOD OF PRODUCTION**

**LOOK TO THE RATIOs of Marginal product of the resource divided by the Price of the resource**

**Most efficient method is where the MPl/Pl=MPc/Pc**

**L=labor**

**C=Capital**

**Elasticity of MRP is simply how much will a change in the *resources* price- eg. Wage change🡪change in how much of that resource you buy/hire.**

**A wage rate change from 5 to 4 is approximately 20% decline in wage price, how much will this increase the use of that product. If now 12 units of labor are hired rather than 11, than that is approx. a 10% change so its 10%/20%--> relatively inelastic. If the change in labor was 16, that would be a 50% change🡪 50%/20%-->relatively elastic.**

**Review**

**Substitution effect🡪 Price of one resource declines, one ends up using more of that resource**

**Output effect🡪 price of one resources declines, that frees up $$$ to also use the other resource as well as increase output**